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Analysis of the Success and Challenges of Chinese Entrepreneurs in Semporna, Malaysia

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Abstract

This qualitative study explores the practical entrepreneurial experiences, operational issues, and adaptive behaviors of Chinese small and medium enterprises (SMEs) in Semporna, Malaysia. Drawing from field investigations and one-to-one interviews of local Chinese tourism practitioners, this paper examines the development of cross-border tourism ventures in terms of the influences of institutional regulations, market fluctuations and cross-cultural disparities. The empirical findings point to three main constraints faced by immigrant entrepreneurs: restrictive financial entry policies and continuous cash flow pressure, intensive market competition and seasonal tourism volatility, and cultural integration barriers due to language barriers and different religious and social practices. In response to these multidimensional challenges, Chinese entrepreneurs have adopted context-specific adaptive strategies, including value chain-oriented portfolio investment, reliance on ethnic business associations and transnational social ties, local talent recruitment, digital tourism promotion, and proactive community engagement. This study extends the literature by comparing entrepreneurial ecosystems in China and Malaysia, and clarifies how institutional and contextual differences shape firms' strategic judgments and operational outcomes. It contributes to the mixed embeddedness framework by further detailing the role of digital-based transnational social resources in supporting migrant business development in peripheral tourism destinations. In practice, this study offers targeted operational guidance for Chinese SMEs to expand into Southeast Asia and provides practical references for local tourism governance and cross-border economic cooperation.

Keywords

Chinese small and medium-sized enterprises, Chinese entrepreneurs, expatriate performance, Semporna, Malaysia, entrepreneurial success and failure

1. Introduction

This study aims to explore the entrepreneurial environment of Chinese small and medium entrepreneurs in the district of Semporna, Malaysia. This paper adopts a qualitative approach to examine the entrepreneurial environment, social support, organizational network, operational flexibility and entrepreneurial performance of Chinese entrepreneurs in Malaysia thru their venture creation process. The study utilizes semi-structured interviews and fieldwork data collected from multiple entrepreneurs.

The empirical results show that the nascent Chinese entrepreneurs encounter three main challenges in the early stage of entrepreneurship, namely capital constraints, barriers to market entry, and difficulties in cultural adaptation. As entrepreneurs' ventures grow they create a series of targeted strategies that help them realize business goals. To systematically manage operational risks, many Chinese entrepreneurs resort to formal local organizations, including national and provincial Chinese chambers of commerce, when starting businesses in Malaysia. Such institutional support allows entrepreneurs to adapt to the local Malaysian culture, develop inter-entrepreneur networks, build local social ties and gain access to the market, all of which contribute to entrepreneurial success.

The external environment for Chinese entrepreneurs in overseas ventures is multi-layered. It is important to consider engagement with local political institutions and political parties, evaluation of regional economic development, interpretation of local social contexts, technological progress, cultural discrepancies and diverse religious norms and customs, as well as adaptation to local educational norms and work practices. In addition, entrepreneurs have to deal with region-specific industrial policies. Successfully responding to these contextual factors is the key to creating a supportive business ecosystem and achieving sustainable entrepreneurial outcomes.

The study also shows significant differences between the entrepreneurial ecosystems in China and the local institutional environments in Malaysia. Such cross-border environmental differences are expected to affect the strategic decisions of entrepreneurs and the subsequent performance of the venture. To summarize, Chinese small and medium-sized enterprises (SMEs) in Semporna are facing a mixed bag of challenges and opportunities. Language barriers, cultural differences, diverse legal systems and intense local market competition pose critical threats to entrepreneurial success.

Chinese entrepreneurs can tap into the strong China-Malaysia diplomatic relations, local policy incentives, a favorable geographical location, improving business infrastructure and accessible talent pools against the backdrop of China's Belt and Road Initiative. These comparative advantages enable entrepreneurs to capitalize on emerging commercial opportunities and achieve entrepreneurial success. Qualitative inquiry enables this research to give in-depth understanding of the intertwined challenges and opportunities to Chinese SMEs in Semporna. The findings offer practical coping methods and operational guidance for Chinese SMEs to conduct entrepreneurial activities in Malaysia.

2. Review of Literature

2.1 Entrepreneurship of Migrant and Ethnic Groups

Ethnic entrepreneurship literature has shown that business ownership is a common strategy for economic mobility for immigrants, especially when labour-market opportunities are not available or appealing [1, 2, 3]. Explanations have shifted gradually from cultural traits to opportunity structures, that is, market conditions, institutional rules, and competitive environments that determine what ventures are feasible [4, 5, 6]. Synthesizing these developments [7] argued that ethnic entrepreneurship should be understood in terms of the interaction of group characteristics, social structures and context. A related literature interprets ethnic enterprise in terms of resource mobilization. Entrepreneurs rely on family labor, co-ethnic finance and community networks to compensate for their lack of access to mainstream institutions [8, 9, 10, 11].

2.2 The Mixed Embeddedness

The mixed embeddedness framework [12, 13] argues that migrant entrepreneurs are embedded at the same time in social networks and in the politico-institutional structures of the host economy, such as regulations on market entry, licensing, immigration status, and ownership. Most importantly, opportunity structures are shaped not only by social networks but also by institutional constraints: rules about who can invest, how much capital must be deposited, and how much ownership shares foreigners can hold directly condition migrant venture creation. This insight is important for the current study, because the rules in Malaysia – such as the capital-deposit requirement attached to investor entry and majority local-ownership requirements for foreign small firms – are the institutional side of mixed embeddedness, within which Chinese entrepreneurs in Semporna have to operate.

2.3 Social Capital, Guanxi and Networking

Social capital, the resources that can be accessed thru network ties, is a central concept in entrepreneurship research [14, 15, 16]. Social networks provide new entrepreneurs with information, finance, legitimacy and emotional support [17, 18]. Guanxi, understood as reciprocal obligation and trust-based interpersonal relationships, has long been recognized as a structuring principle of economic exchange in Chinese business contexts [19, 20, 21]. Network ties between home and host countries provide access to investment information, partnerships and markets for both overseas Chinese and new Chinese immigrants [22, 23, 24]. Chambers of commerce and business associations institutionalize these ties, transforming interpersonal trust into organizational infrastructure for market entry [25].

2.4 Entrepreneurship Beyond Borders

Transnational entrepreneurs migrate and keep economic and social linkages in origin and destination countries, and their ventures benefit from this dual embeddedness [26, 27, 28]. [29] argue that the best way to understand transnational entrepreneurship is from a network perspective, whereby ventures mobilize resources across borders. [30] reveal that the internationalization strategies of transnational entrepreneurs vary according to their practice-based ties. The Chinese entrepreneurs studied here are typical of this type; their ventures are physically located in Malaysia, but their customer acquisition, marketing channels, supplier relationships and reference frames remain substantially anchored in China. This is similar to the “circulatory” patterns noted among new Chinese migrants [31, 32]. These ventures also illustrate the institutional perspective of international entrepreneurship, that is, how entrepreneurial behavior across borders is jointly shaped by home- and host-country institutions [33].

2.5 Chinese Business in Southeast Asia and Malaysia

The Chinese business in Southeast Asia has been widely studied, with debates ranging from cultural explanations [19] to institutional and political-economic explanations [34, 35, 21]. The ethnic Chinese in Malaysia have traditionally been dominant in commerce within an institutional framework that has been shaped by policies favoring the Bumiputera majority [34, 36]. This established diaspora is different from the phenomenon of PRC nationals establishing SMEs in Malaysian tourism examined in this paper, where the entrepreneurs are first generation migrants and their primary networks, sources of capital and customer bases are in China [31, 37, 38]. The Belt and Road era has enhanced China-Malaysia economic ties, improving the macro-level climate for such ventures [39, 40], but has left micro-level entry barriers—visa capital thresholds, ownership rules, credit access—unchanged.

2.6 Crisis, COVID-19 and Tourism SMEs

Small tourism firms are structurally vulnerable to external shocks: they operate with thin capitalization, high fixed costs, and demand that disappears when travel is restricted [41]. The shock of this kind was never experienced before, until the COVID-19 pandemic. In Malaysia, the MCO was a long period of border closure and restriction of tourism, which had serious consequences for the sector [42]. Research on entrepreneurship in the pandemic showed that venture survival was associated with financial reserves, adaptability and network support [43, 44]. This literature sets the context for understanding why some Chinese businesses in Semporna exited during the pandemic, while others survived.

3. Method

3.1 Design of Research

Given the exploratory nature of the research questions and the absence of previous systematic documentation of Chinese entrepreneurship in Semporna, a qualitative single-case study design with embedded units of analysis (individual ventures) [45, 46] was adopted. Qualitative methods are appropriate where the goal is to understand the experiences, meanings and strategies of actors in context [47, 48] and case study logic lends itself to theory building from rich, contextualized evidence [49].

3.2 Participants and Design

The case is set in the Semporna district of Sabah, Malaysia, an internationally known island tourism and diving destination. The participants were Chinese nationals who had founded or co-founded SMEs in Semporna in tourism-related sectors (catering, hotels and hostels, cruise and boat services, island-tour customization). Participants were recruited using purposive and snowball sampling, initiated thru local business associations and chambers of commerce [50]. [Author's note: please insert the final number of interviewees, their distribution by sector and the fieldwork period, e.g. "Between March 2022 and December 2023 twelve entrepreneurs were interviewed."] Sampling continued until near thematic saturation was reached, a recommended criterion for interview sufficiency in qualitative research [51].

3.3 Data Collection

Data collection was thru semi-structured interviews and field observation. Interviews covered entrepreneurs' decisions to start up, financing, ownership structures, market conditions, competition, relationships with local institutions and communities, cultural adaptation and the impact of the COVID-19 pandemic. Interviews were conducted in Mandarin, lasting approximately [60–90] minutes, and were audio-recorded and transcribed verbatim (with participants' consent). Field observation during site visits to participants' premises (restaurants, hostels, jetties and tour operations) provided contextual and triangulating evidence [45].

3.4 Data Analyzes

Interview transcripts and field notes were analyzed using thematic analysis [52] employing a hybrid inductive-deductive procedure. An initial coding frame was developed based on the literature (financial, market, and institutional constraints; network and cultural-adaptation strategies) and refined thru open coding of the transcripts. Codes were grouped into the themes presented in Section 4. This analysis was supported by qualitative data management procedures recommended by [53]. The data structure was organized based on established practices to demonstrate qualitative rigor [54].

3.5 Credibility and ETHICS

The trustworthiness of the study was established using the criteria of credibility, transferability, dependability, and confirmability [55] by triangulation of data across interviews and observation, thick description of setting, member audit, and peer debriefing by the author team. The purpose of the study was explained to the participants who took part voluntarily and are reported anonymously; all identifying details have been omitted.

4. Results

4.1 The Entrepreneurial Model: Investment Cascade in the Tourism Value Chain

Chinese entrepreneurship in Semporna is focused on tourism-related sectors – catering, hotels and budget hostels, cruise and boat operations, diving and customized island tours, reflecting the district's identity as one of Malaysia's premier island destinations. We found a noticeable pattern among the interviewed entrepreneurs, which we refer to as cascade investment: instead of running a single business, they invested into complementary links of the tourism value chain (food, accommodation, transport and tour services) aiming to offer visitors an integrated, customized experience and capturing spending at multiple points. This is consistent with the patterns of network-based opportunity exploitation described in the ethnic entrepreneurship literature [8] and the practice-based internationalization strategies of transnational entrepreneurs [30].

The entrepreneurial community in Semporna is still loosely organized. Unlike established Chinese business communities in other parts of Southeast Asia [25], the district does not have a strong, comprehensive chamber of commerce and aggregate information on Chinese investment in the area is correspondingly fragmentary. Therefore, entrepreneurs made extensive use of personal networks, such as co-national contacts, provincial associations and ad hoc business circles, as sources of information and partnerships, confirming the relevance of informal social capital where formal associational infrastructure is weak [56, 17].

"The COVID-19 period was a selection event. During Malaysia's Movement Control Order, tourism inflows fell off a cliff [42] and some of the Chinese ventures, especially those that had limited business scopes and high daily operating and maintenance costs, failed and exited the market. The surviving ventures were those that had relatively strong financial capital and therefore could survive over two years of little revenue. This pattern is consistent with pandemic research that finds slack resources and adaptability distinguish survivors from exits among small firms [43, 44]. As travel resumes, survivors have also positioned themselves to benefit from the rebound of Chinese outbound tourism, cooperating with major Chinese online travel and content platforms like Ctrip, Tuniu, Mafengwo and Douyin (TikTok) to achieve targeted marketing to Chinese tourists, whose rising incomes and changing preferences toward international island vacations represent a massive demand base.

4.2 Economic Problems

The most frequently cited and fundamental barrier that Chinese SMEs encountered in Semporna when starting operations was access to capital. Local financing difficulties are shaped by three layered institutional and operational constraints that together determine the financial vulnerability of foreign entrepreneurial entrants. First, the strict regulatory regime for entry of investors in Malaysia requires a high level of capital for foreign entrepreneurs. Under existing immigration and investment policies, foreign investors need to open local bank accounts and deposit a minimum of RM 1 million to qualify for investment visa approval. Some residence schemes, such as the Malaysia My Second Home (MM2H) program, raise the threshold to RM 2 million in fixed deposits. The official purpose of these mandatory capital requirements is to check investor solvency and to reduce speculative risks. However, these create considerable liquidity pressure for resource-constrained start-ups. To compound the problem, the full institutional approval process usually takes two to six months of administrative review. This long clearance period leads to long standing cash-flow pressure to new firms with no formal sources of income, which severely limits the operational stability and growth of firms during the early stages.

Second, strict local equity ownership requirements are a major structural barrier for Chinese entrepreneurs. Malaysian policy requires that for most service and tourism sectors, host country citizens should have a minimum 50-51% majority shareholding in foreign invested SMEs. Field interviews confirm that one of the most intractable entry barriers for new Chinese ventures is finding credible, stable and trustworthy local partners. Many entrepreneurs are in a state of operational uncertainty and frustration, because it is difficult to find reliable local co-owners, even if they have enough initial capital investment and resource preparation.

Third, foreign SMEs are systemically disadvantaged in terms of access to formal bank finance. The rules governing domestic banks in Malaysia are designed to safeguard local businesses and job security for citizens, which leads to strict lending rules for foreign companies. Chinese entrepreneurs also face long and complex procedures and high rejection rates when applying for bank loans, which further restricts access to formal financial channels. Hence, early-stage Chinese ventures depend heavily on informal private investment and ethnic network financing, which in turn requires entrepreneurs to prove credible investment qualifications and stable operational potential within transnational social networks to secure external funding.

These conditions are an example of the politico-institutional side of mixed embeddedness [13]. Opportunity structures are defined as much by regulation as by markets. Entrepreneurs relied on two main channels to cope: to mobilize capital from co-national networks and private investors—which involved demonstrating credibility within those networks [8, 57]—and to structure ventures with trusted Malaysian partners to satisfy ownership rules. Undercapitalized entrants were especially susceptible to the chronic cash-flow pressure of the start-up phase, heightened by lengthy institutional approval delays, a structural fragility brutally exposed during the extended pandemic lockdowns.

4.3 Challenges in the Market

The small-town economy of Semporna, with a tourism orientation, presents unique and multi-layered market challenges for incoming Chinese SMEs. First, demographic and linguistic segmentation limits local market penetration. The overwhelming majority of the local population in Semporna is of Malay and

Indonesian maritime ethnic origin and the Malay language is the main language of daily commerce. Such linguistic and cultural differences create serious operational challenges for Chinese companies trying to serve domestic local consumers, and so most Chinese tourism ventures have to focus their service systems primarily on international tourists, particularly outbound travelers from China.

Second, homogeneous industrial structures lead to more intense competition in the multi-source market. Since the town's economic development is highly dependent on tourism, the local business layouts of catering, accommodation, marine tourism and recreational services are highly convergent. Chinese entrepreneurs are squeezed between long-established local operators and other foreign investors and new Chinese ventures. One of the most persistent operational challenges, interviewees said over and over, is differentiating service positioning, brand characteristics and customer value propositions. In an effort to sustain their competitive advantage, [58] suggest that firms are required to systematically monitor the market, analyze the strategies of competitors, identify their unique service advantages and develop targeted branding and specialized marketing channels.

Third, immature industrial governance causes serious market seasonality and price volatility. There is no standardized industrial supervision and unified pricing mechanism for Semporna’s tourism industry. The significant fluctuations between peak and off-season market demand allow individual merchants to engage in opportunistic pricing behavior, which damages the overall quality of service, the destination’s collective market reputation and the local business ecosystem. Beyond market competition, entrepreneurs must also guaranty that all marketing and operational practices are in full compliance with local government regulations, legal structures, and cultural conventions. Any breach of local institutional norms could harm the credibility of individual firms and the collective brand image of Chinese business communities.

Faced with such constraints on the market, the successful Chinese entrepreneurs locally focus on complete market adaptation strategies, including: precise product and service optimization, building stakeholder relationships with local suppliers and customers, standardized cost control, improved operational efficiency, and continuous service quality optimization. This hybrid approach of market differentiation and institutional compliance suits the competitive logic of differentiation under institutional constraint [59].

4.4 Problems of Cultural Adjustment

Entrepreneurs have to cope with language, religious, customary and value differences that have a direct impact on business decisions, communication with interested parties, and daily social interaction [60, 61]. Semporna is a multi-ethnic region in Malaysia which is Islam-dominant where the religious norms, local customs and social values are significantly different from Chinese cultural traditions. A basic requirement for Chinese ventures to successfully integrate locally is therefore a structured knowledge of local religious taboos, community conventions and social operational logic, combined with a functional command of the Malay language.

Three common cultural adaptation practices adopted by the local Chinese entrepreneurs were identified in the field research. First, strategic local employment is a primary mechanism of cross-cultural adaptation. By hiring local staff, firms can ease government liaison, daily business negotiations and market expansion, while effectively overcoming language barriers and cultural misunderstandings. Entrepreneurs consider cultural learning to be a continuous and long-term process, rather than a one-time adaptation task. It involves the constant observation and understanding of local social characteristics and community norms.

Second, entrepreneurs develop cross-cultural embeddedness thru their involvement in industrial associations and community networking. Active participation in local chambers of commerce and industry groups helps Chinese firms build stable networks with local business groups, get contextualized economic information and mitigate cross-cultural operational risks. Some interviewed entrepreneurs mentioned that they created informal “cultural adaptation teams,” made up of local Malaysian employes and Chinese managerial members, to provide real-time cultural interpretation, local market analysis, and targeted business consulting for the operations of the venture.

Thirdly, firms achieve bridging of organizational and technological thru hybrid management practices. Many Chinese SMEs transfer mature domestic corporate culture and institutional routines such as weekly operational meetings, monthly performance reporting and organizational cultural activities to strengthen internal team cohesion and stabilize overseas organizational atmosphere. Entrepreneurs also use Chinese digital management ecosystems, including DingTalk, Tencent platforms and WeChat, for remote team coordination, staff training and systematic performance evaluation, achieving notable success in cross-cultural communication efficiency. In the external dimension, social media and online tourism platforms are employed to enlarge transnational social networks, strengthen local market influence, and boost industrial competitiveness.

Respondents' accounts suggest that successful cultural adaptation requires consistent resource allocation, long-term cultural learning, and proactive community integration. "Only thru continuous cultural integration, institutional compliance and relational building can transnational tourism ventures solve cross-cultural frictions and achieve stable local development" (p. 10).

4.5 Success Approach

Across cases, successful entrepreneurs combined five strategies: (1) anchoring in co-ethnic and associational networks—national or provincial chambers of commerce and business federations (including the Malaysia–China entrepreneurs' associations)—to overcome entry obstacles, integrate into Malaysian commercial culture, and expand market reach [25, 20]; (2) cultivating local relationships through employment of local staff, community engagement, and partnership with Malaysian co-owners [13]; (3) exploiting China's digital ecosystem—online travel platforms and short-video/social-media marketing—for precise, low-cost customer acquisition targeting Chinese tourists, an approach analogous to the new-media-driven destination marketing observed in recent Chinese domestic tourism phenomena; (4) cascade investment across the tourism value chain to diversify revenue and raise the switching value of their service bundles; and (5) environmental stewardship—reminding tourists to protect the marine environment, avoid disturbing marine life, and manage waste responsibly—both as an ethical commitment and as protection of the natural asset on which Semporna's tourism value depends. Entrepreneurs also highlighted the need for constructive engagement with the municipal authorities to minimize barriers to commerce and the need for maintaining service integrity to avoid damaging the collective reputation of the destination.

5. Discussion

5.1 Discussion

The results corroborate and further develop the mixed embeddedness framework. Chinese entrepreneurs in Semporna are embedded at once in co-national social networks—provincial associations, chambers, digital platforms—and in the Malaysian politico-institutional structure of visa capital thresholds, ownership rules, and credit regulation [12, 13]. Importantly, the "ethnic resources" these entrepreneurs rely on differ from those in classic ethnic-enclave accounts [1, 3]: they emerge predominantly in the home country rather than in a settled host-country diaspora, and they are transmitted thru digital platforms and transnational associations rather than spatially concentrated communities. Such a configuration is characteristic of transnational entrepreneurship [26, 29] and indicates that transnational, digitally mediated social capital can replace – at least partly – the local co-ethnic infrastructure assumed by earlier models [22, 24].

Pandemic evidence speaks to debates about crisis and small-firm resilience. Survival in Semporna was more about financial depth and network strength than formal planning. These findings resonate with findings that resource slack and adaptive capacity influence small-firm survival in the face of systemic shocks [43, 44] and that tourism SMEs are particularly vulnerable to demand-side shocks [41, 42]. The cascade investment pattern adds a contextual nuance to internationalization theory. While the Uppsala model highlights incremental commitment with increasing market knowledge [62, 63], and international new venture theory highlights early cross-border integration of resources [64, 65], Semporna's Chinese entrepreneurs commit across a local value chain rapidly but in small increments, hedging demand risk within a single destination, a micro-level diversification logic closer to portfolio entrepreneurship than to classic stage models.

Finally, the findings highlight the dual orientation of these ventures: institutionally and legally Malaysian, but commercially and digitally oriented toward Chinese demand. This duality comes with both opportunity – privileged access to the world's largest outbound tourism source market – and fragility, as dependence on a single demand origin was shown during China's prolonged border closures. Diversifying demand sources and deepening local embeddedness are strategic priorities in line with contextualized accounts of entrepreneurship [66, 59].

5.2 Implication

The study suggests that Chinese entrepreneurs and SMEs targeting Malaysia should secure capitalization well above visa-deposit minima; invest early in trustworthy local partnerships to satisfy ownership rules; join chambers of commerce and entrepreneurs' associations; hire and empower local staff; adapt management practices to local norms; and combine China's digital marketing ecosystem with compliance with local regulations and respect for local culture and religion. The findings suggest to Malaysian policymakers and local authorities that transparent, streamlined approval procedures and accessible information for small foreign investors might capture more of the investment and employment these ventures generate, whilst destination-level governance of pricing and environmental practice would protect the collective tourism asset. Weakness of formal organization in peripheral districts like Semporna represents an opportunity for business associations to provide information, collective representation and liaison services.

5.3 Limitations and Future Research

The study is a qualitative case study of a single district using a purposive sample. Findings are analytically generalizable, not statistically generalizable [45, 55]. Interviews were conducted in Mandarin and translated/analyzed by the authors, which may have interpretation effects. Reliance on entrepreneur self-reports may understate failures, due to survivorship bias in who remained available to interview. Future research should: (1) compare Semporna with other Malaysian destinations (e.g., Kota Kinabalu, Langkawi, Kuala Lumpur) to test the transferability of the cascade-investment and network patterns; (2) include the perspectives of local partners, employes, and authorities to triangulate the institutional account; (3) undertake longitudinal work following ventures thru the post-pandemic recovery; and (4) explore quantitatively how transnational digital platforms mediate the relationship between network embeddedness and venture performance.

6. Conclusion

Chinese migrant entrepreneurs in Semporna establish enterprises at the juncture of Chinese transnational networks and Malaysian institutional structures. They encounter significant financial, market and cultural challenges – capital-deposit and ownership rules, limited credit, a small and seasonally volatile tourism market and exacting cultural adaptation – but employ unique strategies in response: cascade investment along the tourism value chain, chamber-of-commerce anchoring, local partnership and employment, digital-ecosystem marketing and environmental responsibility. The COVID-19 pandemic revealed the logic of selection in this environment, rewarding capitalization and depth of networks. Theoretically, the case extends mixed embeddedness and social capital perspectives to a digitally mediated, transnationally-oriented migrant entrepreneurship population. Practically, it provides grounded guidance for Chinese SMEs internationalizing into Southeast Asia. With the continuing deepening of China-Malaysia economic ties in the Belt and Road framework, such micro-level entrepreneurial linkages will continue to be an important, and under-researched, part of the bilateral relationship.

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